

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 L-03 NSC-05 CIAE-00 INR-07

NSAE-00 PA-01 USIA-06 PRS-01 SP-02 EB-07 COME-00

FRB-03 TRSE-00 CIEP-01 OMB-01 CEA-01 XMB-02 STR-04

/064 W

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R 081222Z MAR 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8579

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

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PASS TREASURY, FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FRENCH MONETARY POLICY

REF: PARIS 0718

1. IN RECENT YEARS CREDIT CEILINGS APPLIED TO EACH BANK HAVE BEEN BY FAR THE MOST IMPORTANT INSTRUMENT OF RESTRICTIVE MONETARY POLICY. FROM NOVEMBER 1972 ONWARDS CREDIT CEILINGS BECAME PROGRESSIVELY MORE SEVERE THROUGH MID-1975 AND WERE NOT RELAXED EVEN AFTER THE ECONOMIC SUPPORT PROGRAM OF SEPTEMBER 1975. AT PRESENT SUCH CEILINGS PERMIT A ONE PERCENT PER MONTH INCREASE UP TO 113 PERCENT OF THE BASE PERIOD OF CREDITS OUTSTANDING AS OF DECEMBER 31, 1974. WHILE THE POLICY INTENT IS RESTRICTIVE, LOAN DEMAND HAS BEEN SO SLACK THAT A FAIRLY SUBSTANTIAL RISE IN

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OVERALL CREDIT BY THE BANKING SYSTEM WOULD BE POSSIBLE

BEFORE REACHING THE 113 PERCENT CEILING.

2. A SECONDARY MEASURE OF RESTRICTIVE MONETARY POLICY IS THE INTEREST RATE FOR THE CALL MONEY MARKET WHICH HAS EVOLVED IN RECENT YEARS AS A MAJOR SOURCE OF BANK LIQUIDITY. CALL MONEY MARKET RATES WERE TIGHTENED DURING THE RECENT FOREX CRISIS FROM 6 PERCENT TO 7 AND 3/4 PERCENT FOR 24 HOUR LOANS. AS THE MAJOR SUPPLIER OF FUNDS TO THE CALL MONEY MARKET THE BANK OF FRANCE CAN SET INTEREST RATES FOR THIS MARKET. THE RISE IN CALL MONEY RATES WAS DESIGNED TO DISCOURAGE SHORT-TERM BORROWING FOR SPECULATIVE PURPOSES. THIS RISE HAS NOT BEEN ACCOMPANIED BY A CORRESPONDING GENERAL RISE IN MEDIUM AND LONG-TERM LENDING RATES, PARTLY BECAUSE THE DISCOUNT RATE REMAINED UNCHANGED. THUS BANKS COULD UTILIZE THIS WINDOW WHICH WOULD GIVE THE BANK OF FRANCE THE OPPORTUNITY TO MORE CLOSELY REVIEW BANK OPERATIONS THAN DOES THE MONEY MARKET. SINCE MID-1960'S DISCOUNT OPERATIONS HAVE NOT BEEN SIGNIFICANT BUT REMAIN AS AN OPTION AND ALSO NO DOUBT EXERT SOME POLICY EFFECT. THE MONETARY AUTHORITIES CLEARLY DID NOT WISH A GENERAL RISE IN LENDING RATES TO RESULT FROM THEIR EFFORTS TO SQUEEZE SPECULATORS BY RAISING CALL MONEY MARKET RATES.

3. IN SUMMARY, THE BASIC STRUCTURE OF MONETARY POLICY REMAINS RESTRICTIVE BUT SLACK CREDIT DEMAND WILL PERMIT AN EXPANSION UNDER EXISTING CEILINGS SUFFICIENT TO SUSTAIN THE PRESENT MODERATE RATE OF ECONOMIC RECOVERY. IF PRESENT TRENDS CONTINUE THERE SHOULD BE SOME TIGHTENING OF INTEREST RATES ACROSS THE BOARD BY MID-YEAR OR BY THE THIRD QUARTER UNLESS EXISTING CREDIT CEILINGS ARE RELAXED.

4. FOR FURTHER DETAILS SEE REFTEL AS WELL AS FOLLOWING MESSAGES SUBMITTED PAST THREE MONTHS:

PARIS 31305, PARA. 4 (12/2/75)
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PARIS 32716, PARA. 4 (12/15/75)
PARIS 33861, PARA. 7 (12/29/75)
PARIS 1229, PARA. 7 (1/14/76)
PARIS 4622, PARA. 4 (2/13/76)
PARIS 6363, PARA. 9 (3/2/76)
RUSH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, CURRENCY CONTROLS, LIQUIDITY (MONETARY), CREDIT CONTROLS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 MAR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976PARIS06850
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760087-0363
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760384/aaaacwgm.tel
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Office: ACTION EUR
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Original Handling Restrictions: n/a
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Previous Handling Restrictions: n/a
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Review Markings:

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04 MAY 2006

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